

Message Text

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ACTION COME-00

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CIAE-00 EB-08

FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 L-03 STR-07

/084 W

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P 150531Z JUN 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 1662

INFO USMISSION GENEVA PRIORITY

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GENEVA FOR MTN

E.O. 11652: N/A

TAGS: ETRD

SUBJECT: PURCHASING ENTITIES OF THE CENTRAL GOVERNMENT

REF: STATE 147535

SUMMARY: OFFICE OF SUPPLY REPUBLIC OF KOREA (OSROK) SERVES AS THE SINGLE MAJOR PROCUREMENT WINDOW FOR THE KOREAN GOVERNMENT IN MUCH THE SAME WAY AS USGSA. HOWEVER, GOVERNMENT AGENCIES AND GOVERNMENT-OWNED FIRMS HAVE AUTHORITY TO PURCHASE EMERGENCY NEEDS, NEGOTIATE CONTRACTS AND CONDUCT MAJOR CAPITAL PROJECT BIDDING INDEPENDENTLY. PROCUREMENT IS SIMILAR TO U.S. PRACTICE AND OFFERS NO REPEAT NO SIGNIFICANT BARRIERS TO U.S. FIRMS. NEGOTIATION OF MTN PROCUREMENT CODE WOULD THEREFORE HAVE NO EXPANSIONARY EFFECTS ON TRADE ACCESS TO ROKG ENTITIES BECAUSE U.S. FIRMS ALREADY HAVE FREE ACCESS IN THE PROCUREMENT PROCESS. END SUMMARY.

1. THE CENTRAL PURCHASING ENTITY IN KOREA IS THE OFFICE OF SUPPLY, REPUBLIC OF KOREA (OSROK) WHICH SUPERVISES THE LIMITED OFFICIAL USE

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PROCUREMENT OF GOVERNMENT AGENCIES AND GOVERNMENT-OWNED ENTERPRISES IN WHICH THE GOVERNMENT HOLDS A MAJORITY SHARE. FORMAL PUBLIC INVITATIONS TO BID ARE ISSUED FOR ALL PROCUREMENT, ALTHOUGH OCCASIONALLY OSROK IS OBLIGATED TO PURCHASE UNDER NEGOTIATED PROCUREMENT, AS IN THE CASE OF SPARE PARTS FOR SPECIALIZED EQUIPMENT. PURCHASES ARE FINANCED EITHER BY GOVERNMENT-OWNED FOREIGN EXCHANGE (KFX) OR BY LOAN AND

CREDIT FUNDS FROM FOREIGN AID PROGRAMS AND INTERNATIONAL FINANCIAL ORGANIZATIONS. THE INVITATION TO BID SPECIFIES WHICH SOURCE OF FINANCING IS TO BE USED TO PAY FOR THE GOODS AND SERVICES. IN THE CASE OF FOREIGN AID FUNDS, PROCUREMENT IS USUALLY LIMITED TO THE COUNTRY EXTENDING THE CREDIT; IN THE CASE OF KFX FUNDS, ON THE OTHERHAND, BIDDING IS WORLD-WIDE. IN GNERAL, THE DEALINE FOR RECEIVING BIDS IS 40 CALENDAR DAYS AFTER THE INVITATION TO BID IS ISSUED. BY LAW, THE AWARD IS MADE TO THE LOWEST QUALIFIED BIDDER CONFORMING TO THE TERMS AND CONDITIONS OF THE BID INVITATIONS, TAKING INTO ACCOUNT THE PRICE, DELIVERY TIME, QUANTITY, SPECIFICATIONS, AND FINANCIAL TERMS MOST ADVANTAGEOUS TO THE GOVERNMENT. BIDS ARE IN TWO PARTS, THE FIRST CONSISTING OF SPECIFICATIONS AND DETAILS OF THE OFFER (EXCLUDING PRICE) AND THE SECOND CONSISTING OF PRICE ALONE. ONLY BIDDERS WHOSE SPECIFICATIONS HAVE BEEN ACCEPTED ARE ELIGIBLE TO HAVE THEIR PRICE BIDS OPENED DURING THE EVALUATION BY THE END-USER AGENCY. PROCUREMENT NEEDS FOR THE GOVERNMENT AGENCIES ARE FORMULATED BY THE MINISTRIES AND AGENCIES CONCERNED AND THEN SCREENED BY THE MINISTRY OF COMMERCE AND INDUSTRY TO SEE WHETHER THOSE REQUIREMENTS CAN BE MET FROM LOCAL SOURCES. IF NOT, THE MINISTRY OF FINANCE ALLOCATES THE NECESSARY FOREIGN EXCHANGE FUNDS. SPECIFICATIONS ARE NORMALLY DRAWN UP BY THE GOVERNMENT AGENCY REQUESTING THE GOODS AND SERVICES." COPIES OF OFROK'S ANNOUNCEMENTS AND IFB'ARE ISSUED TO THE OFROK EMBASSY AND CONSULATES GENERAL IN THE U.S. AND OTHER LIMITED OFFICIAL USE

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COUNTRIES APPROXIMATELY 35 DAYS PRIOR TO THE BID DEADLINE. U.S. FIRMS BID TO OSROK DIRECTLY AS WELL AS THROUGH AGENCIES IN KOREA. BID DOCUMENTS FOR OSROK CONTRACTS ARE SENT TO THE PROCUREMENT ATTACHE AT THE KOREAN CONSULATE GENERAL IN NEW YORK. APPARENTLY, BETWEEN 30 AND 70 COPIES ARE SENT FOR EACH TRANSACTION, THE EXACT NUMBER VARYING WITH THE SOURCE OF FUNDING USED. BID DOCUMENTS ARE THEREFORE AVAILABLE IN THE U. S. AND MAY BE OBTAINED BY WRITING TO: PROCUREMENT ATTACHE, CONSULATE GENERAL OF THE REPUBLIC OF KOREA, 460 PARK AVE., NEW YORK, N.Y. 10022.

2. KOREA HAS A FREE MARKET ECONOMY BASED ON PRIVATE OWNERSHIP OF THE MEANS OF PRODUCTION AND DISTRIBUTION. THE GOVERNMENT DOES OWN, HOWEVER, PART OR ALL OF APPROXIMATELY 35 COMPANIES WHICH ARE ORGANIZED AND OPERATED AS PRIVATE COMPANIES WITH INDEPENDENT MANAGEMENT. SOME OF THESE FIRMS ARE: AGRICULTURE DEVELOPMENT CORPORATION, CHINHAE CHEMICAL CO. LTD.,

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TO SECSTATE WASHDC PRIORITY 1663

INFO USMISSION GENEVA PRIORITY

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GENEVA FOR MTN

KOREA GENERAL CHEMICAL INDUSTRY CORP., KOREA ELECTRIC CO., KOREA FERTILIZER CO., LTD., DAI HAN COAL CORP., KOREA TRADE PROMOTION CORP., KOREA OIL CORP., YONG NAM CHEMICAL CO., LTD., KOREA HOUSING COPR., AND POHANG IRON AND STEEL CO., LTD. IN ADDITION, THE GOVERNMENT TRADITIONALLY HAS CONTROLLED THE ECONOMY THROUGH ITS OVERALL ECONOMIC DEVELOPMENT PLANS, SPECIFIC INDUSTRY EXPANSION PLANS, PRICE CONTROLS, AND OTHER SPECIAL ECONOMIC MEASURES TAKEN TO ACHIEVE STABILIZATION AND GROWTH. IN ADDITION TO THE 35 COMPANIES (IN CONTRAST TO SUCH ENTITIES AS KOREAN NATIONAL RAILWAYS, KIST OR SEOUL NATIONAL UNIVERSITY REGARDED AS PARTS OF THE GOVERNMENT ITSELF), THERE ARE EIGHT OR MORE FIRMS IN WHICH THE KOREA DEVELOPMENT BANK (ONE OF THE 35) IS OWNER OR SUBSTANTIAL INVESTOR. PURCHASING BY THESE LATTER FIRMS IS CONDUCTED WITHOUT REFERENCE TO GOVERNMENT CHANNELS. FOR EXAMPLE, KDB IS AT PRESENT THE PARTNER OF GENERAL MOTORS JOINT VENTURE IN KOREA (SAEHAN MOTORS) BY VITURE OF HAVING TEMPORARILY TAKEN OVER THE INTERESTS OF SHINJIN MOTORS, GMC'S EX PARTNER. KDB'S INTERESTS ARE REPRESENTED IN THE BOARD OF DIRECTORS, WHILE ORDINARY OPERATIONS, INCLUDING

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PURCHASING, REMAIN UNDER THE EFFECTIVE CONTROL OF EXPATRIATE GMC PERSONNEL.

3. IN PRINCIPLE, ALL PROCUREMENT FOR THE ROKG AND GOVERNMENT

OWNED FIRMS IS CONDUCTED BY OSROK; HOWEVER, THERE ARE MANY EXCEPTIONS AND A GOOD DEAL OF PURCHASING IS DONE DIRECTLY BY INDIVIDUAL ENTITIES. WHERE A PARTICULAR FIRM HAS AN EMERGENCY NEED FOR PERHAPS REPLACEMENT PARTS OR A SUDDEN RAW MATERIAL NEED, IT IS PERMITTED TO PURCHASE ON ITS OWN ACCOUNT. (PRODUCTION ORGANIZATIONS SUCH AS POHANG IRON AND STEEL AND KOREA ELECTRIC CO. PURCHASE SIGNIFICANTLY ON AN EMERGENCY BASIS.) A SECOND INSTANCE WHERE GOVERNMENT-OWNED FIRMS PROCURE DIRECTLY IS IN CONTRACTS WHICH ARE NEGOTIATED RATHER THAN BID. NEGOTIATED PURCHASING IS TYPICAL WHERE CAPITAL EQUIPMENT IS BEING AUGMENTED OR REPLACED. BY FAR, THE MOST SIGNIFICANT DIRECT PROCUREMENT TAKES PLACE WHERE A GOVERNMENT MINISTRY OR GOVERNMENT OWNED FIRM IS TO BE THE BORROWER FOR MAJOR PROJECTS FROM FOREIGN EXPORT-IMPORT BANKS OR INTERNATIONAL FINANCIAL INSTITUTIONS. BID DOCUMENTS ARE PREPARED AND DISTRIBUTED AND EVALUATED BY THE ENTITY WHICH THEN NEGOTIATES THE DEAL DIRECTLY. (KOREA ELECTRIC COMPANY PURCHASE OF POWER PLANTS PROVIDES A GOOD EXAMPLE OF SUCH DIRECT PRUCHASING.)

4. RECORD OF U.S. FIRMS IN SUPPLYING ROKG CONTROLLED AGENCIES, INCLUDING AUTONOMOUS SEOUL METORIPOLITAN GOVERNMENT, IS EXCELLENT. BIDS ARE ADVERTISED AND HANDLED FAIRLY AND EFFICIENTLY AND NO CLAIMS OF IMPROPRIETY HAVE COME TO OUR EARS IN RECENT YEARS. PUBLICATION OF OSROK INVITATIONS IN ENGLISH IN THE U.S. GIVES INTERESTED FIRMS OPPORTUNITIES TO SEEL TO THE ROK WITHOUT NECESSITY OF BEING REPRESENTED IN KOREA. THE SOLE PROBLEM IN EXPANDING U.S. SALES TO ROKG IS JAPANESE LIMITED OFFICIAL USE

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DUMPING ON MAJOR NON-REPETITIVE EQUIPMENT PURCHASES. THAT ISSUE IS OF COURSE EXTRANEIOUS TO ROK PROCUREMENT RULES AND PROCEDURES AND/OR MTN PROCUREMENT CODE.

5. RATHER THAN CABLE THE LIST OF 35 ENTITIES NOTED IN PARA TWO ABOVE, EMBASSY WISHES SIMPLY TO NOTE THAT U.S. FIRMS HAVE EXCELLENT ACCESS TO ALL ROKG CONTROLLED OR RELATED PURCHASING WINDOWS WHICH CONDUCT THEIR BUSINESS BASICALLY ALONG THE SAME LINES AS THE USGSA. KOREAN ADHERENCE TO THE PROPOSED MTN GOVERNMENT PROCUREMENT CODE WOULD NOT, IN OUR OPINION, AFFECT OPPORTUNITIES FOR U.S. EXPORTS BECAUSE ROK PRACTICES DO NOT REPEAT NOT APPEAR AT THIS TIME TO PLACE ANY SIGNIFICANT LIMITATIONS ON U.S. VENDORS OF GOODS WHICH ARE NOT LOCALLY PRODUCIBLE IN COMPETITIVE QUALITY.
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